

NSC BRIEFING

15 May 1967

**PEIPING'S ECONOMIC PROBLEMS**

- I. For several months the Chinese Communists have been in a period of economic stress brought on largely by their own overly ambitious programs.
  - A. Peiping has admitted that its inexperienced planners will "inevitably make mistakes, large and small."
  - B. Obsession with rapid industrialization has led planners to stress heavy industry over light industry and agriculture--Soviet style. They are now suffering the consequences.
  - C. Mao himself has admitted that China's "backward agricultural economy" cannot support desired rates of industrial growth.
- II. Danger signs, ignored at first, began to multiply late last year.
  - A. The state's agricultural procurement program began to lag.
    1. Crops overestimated through poor statistics.
    2. Chinese have admitted some peasant withholding of crops.
    3. Socialization of agriculture--now virtually complete--reduced production of secondary crops.
    4. As a result, government revenues fell below plan.
  - B. Strong inflationary pressures appeared in 1956.
    1. Wages went up by average of 13%, consumer goods only 7.
    2. Urban labor force grew by 2.2 million against a planned 600,000--thus adding to wage bill without a corresponding increase in production.

**C. Critical shortages developed in vital items such as steel, power, coal, cement, lumber and consumer goods.**

**D. Serious transportation bottlenecks appeared.**

**III. The Chinese regime has adopted a fairly realistic program to meet these short-run problems, although at some cost to ideological orthodoxy.**

**A. Without abandoning the priority buildup of heavy industry, the Chinese have indicated that light industry will now get more attention.**

**B. In 1957 the nation will be allowed to take a breather before plunging into the Second Five-Year Plan (1958-1962). (See chart)**

**1. Most of the high industrial goals for the First Five-Year Plan (1953-1957) had been reached in '56.**

**C. Expenditures in '57 will be cut to conform to lower revenue.**

**1. The rate of industrial growth is to be sharply reduced (from 28% in '56 to 5.6% in '57), falling short of that of agriculture for the first time.**

**2. Investments are to be held 10-15% under 1956, mainly at the expense of "cultural measures" (schools, hospitals, etc.) and possibly railway construction.**

**a. Investment in railroads is to be concentrated on raising the capacity of existing lines.**

**D. The regime has boosted prices on some consumer goods to absorb inflationary pressures.**

**E. Controls have been relaxed on about 25% of consumer goods (but not on foodstuffs and cotton cloth) in the hope that capitalist-style incentives will stimulate trade.**

**IV. Another nagging difficulty the Chinese face is the need to repay past Soviet credits, which now total \$1.5-2 billion.**

**A. Unless further Soviet assistance is forthcoming, these repayments will steadily increase and may soon reach as high as 10% of all Chinese exports to the Soviet Union.**

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**V. Despite the difficulties which have recently appeared, the industrial economy of China grew rapidly in 1958.**

**A. China is now producing more steel, machinery, coal, electric power, food and cotton than ever before.**

**1. It has begun to produce for the first time such items as modern jet aircraft, naval vessels and trucks.**

**2. It has begun, with Soviet assistance, a limited atomic energy development program.**

**B. While the high goals for the upcoming Five Year Plan may be reduced slightly, we believe the industrial economy will continue to grow fairly rapidly.**

Approved For Release 2003/10/01 : CIA-RDP79R00890A000800070033-6

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